

**REPORT ON THE AUDIT OF THE
LAUREL COUNTY
FISCAL COURT**

For The Fiscal Year Ended
June 30, 2007

**LAUREL COUNTY FISCAL COURT
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Independent Auditor's Report

To the People of Kentucky

Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary, Finance and Administration Cabinet
Honorable Lawrence Kuhl, Laurel County Judge/Executive
Members of the Laurel County Fiscal Court

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of Laurel County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Laurel County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Laurel County Section 8 Housing. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Laurel County Section 8 Housing, is based on the report of the other auditor. Those financial statements reflect total assets and revenues of the governmental fund financial statements as follows: 19% of assets and 4% of revenues.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

As described in Note 1, Laurel County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of Laurel County, Kentucky, as of June 30, 2007, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with the basis of accounting described in Note 1.



The CPA. Never Underestimate The Value.™

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary, Finance and Administration Cabinet

Honorable Lawrence Kuhl, Laurel County Judge/Executive

Members of the Laurel County Fiscal Court

The management's discussion and analysis and budgetary comparison information on pages 4-11 and 35-41 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Laurel County, Kentucky's basic financial statements. The accompanying supplementary information, which is comprised of combining nonmajor fund financial statements, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements. The combining nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated February 10, 2009, on our consideration of Laurel County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the Schedule of Findings and Questioned Costs, included herein, which discusses the following report comment:

- Segregation of Duties
- The County Should Pay Employees For Time Worked
- Bid Procedures
- Related Party Transactions
- Construction of Emergency Operations Building

Christian, Sturgeon & Associates, PSC

February 10, 2009

LAUREL COUNTY OFFICIALS
For The Year Ended June 30, 2007

Fiscal Court Members:

Lawrence Kuhl	County Judge/Executive
Roy Crawford	Magistrate
Tom Baker	Magistrate
David Westerfield	Magistrate
Jeff Book	Magistrate
David Bruner	Magistrate
Noah Baker	Magistrate

Other Elected Officials:

Elmer Cunnagin	County Attorney
Jack Sizemore	Jailer
Dean Johnson	County Clerk
Roger Schott	Circuit Court Clerk
Fred Yaden	Sheriff
Joyce Parker	Property Valuation Administrator
Doug Bowling	Coroner

Appointed Personnel:

Karen Montgomery	County Treasurer
Rick Brewer	Occupational Tax Collector

**LAUREL COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended June 30, 2007**

The financial management of Laurel County, Kentucky offers readers of Laurel County's financial statements this narrative overview and analysis of the financial activities of Laurel County for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in our letter of transmission and the notes to the financial statements.

Financial Highlights

- Laurel County had net assets of \$40,476,447 as of June 30, 2007. The fiscal court had unrestricted net assets of \$1,761,714 in the governmental activities as of June 30, 2007. In the business-type activities, cash and cash equivalent were \$90,779 with total assets of \$90,779.
- The governmental activities total net assets increased by \$912,918 from the prior year. This increase is primarily due to grant funds received by the CSEPP Fund that were not expended by June 30, 2007.
- At the close of the current fiscal year, Laurel County governmental activities reported current assets of \$1,357,292.
- Laurel County's total indebtedness at the close of fiscal year June 30, 2007 was \$11,539,907, of which \$10,843,354 is noncurrent debt (due after 1 year) and \$696,553 is current debt (to be paid within one year). Debt decreased \$344,752 for the year. This decrease was due to scheduled debt service payments made by the County.

Overview of the Financial Statements

This management discussion and analysis is intended to serve as an introduction to Laurel County's basic financial statements. Laurel County's basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statement themselves.

Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, requires management to include certain condensed financial information derived from government-wide financial statements comparing the current year to the prior year. The comparative information include current and prior year comparisons of program and general revenues by major source, and program expenses by function.

LAUREL COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended June 30, 2007
(Continued)

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of Laurel County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of Laurel County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Laurel County is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as timing for recognizing revenues, expenses, and related assets and liabilities.

Under the County's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expenses on capital assets in the government-wide financial statements for all activities and in the fund financial statements for the proprietary fund financial statements.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) or compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). Laurel County's governmental activities include general government, protection to persons and property, roads, recreation, social services, debt service, capital projects, and administration. Laurel County has one business type activity – Jail Canteen.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Laurel County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Laurel County can be divided into broad categories: *governmental funds and proprietary funds*.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's current financing requirements.

LAUREL COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended June 30, 2007
(Continued)

Governmental Funds (Continued)

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Laurel County maintains (13) thirteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances.

Major Funds:

- General Fund
- Road and Bridge Fund
- Jail Fund
- Occupational Tax Fund
- General Obligation Bond Fund
- Laurel County Section 8 Housing
- Local Government Economic Assistance Fund
- Economic Development Fund
- Chemical Stockpile Emergency Preparedness Program Fund

Non-major Funds:

- Forest Fire Fund
- Local Government Economic Development Fund
- Camp Wildcat Fund
- Laurel County Courthouse Annex, Inc.

Laurel County adopts an annual appropriated budget. A budgetary comparison statement has been provided for the General Fund, Road and Bridge Fund, Jail Fund, LGEA Fund, Occupational Tax Fund, Economic Development Fund, and CSEPP Fund to demonstrate compliance with their budgets.

Proprietary Funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Jail Canteen Fund.

LAUREL COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended June 30, 2007
(Continued)

Financial Analysis of the County as a Whole

Net Assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

Table 1
Laurel County's Net Assets

	Governmental Activities		Business -type Activities		Total	
	2006	2007	2006	2007	2006	2007
Assets						
Current and other assets	\$ 1,339,655	\$ 1,357,292	\$ 120,816	\$ 90,779	\$ 1,460,471	\$ 1,448,071
Capital assets	50,017,754	50,568,283	-	-	50,017,754	50,568,283
Total Assets	<u>51,357,409</u>	<u>51,925,575</u>	<u>120,816</u>	<u>90,779</u>	<u>51,478,225</u>	<u>52,016,354</u>
Liabilities						
Current and other liabilities	631,553	696,553			631,553	696,553
Long-term liabilities	11,253,106	10,843,354			11,253,106	10,843,354
Total Liabilities	<u>11,884,659</u>	<u>11,539,907</u>	<u>-</u>	<u>-</u>	<u>11,884,659</u>	<u>11,539,907</u>
Net Assets						
Invested in capital assets, net related debt	38,133,095	38,623,954			38,133,095	38,623,954
Restricted	-	-			-	-
Unrestricted	1,339,655	1,761,714	120,816	90,779	1,460,471	1,852,493
Total Net Assets	<u>\$ 39,472,750</u>	<u>\$ 40,385,668</u>	<u>\$ 120,816</u>	<u>\$ 90,779</u>	<u>\$ 39,593,566</u>	<u>\$ 40,476,447</u>

The largest portion of the County's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles and equipment, and infrastructure), less any related debt used to acquire those assets that are still outstanding. The County uses these capital assets to provide services; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

LAUREL COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended June 30, 2007
(Continued)

Table 2
Laurel County's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2006	2007	2006	2007	2006	2007
Program Revenues						
Charges for Services	\$ 76,965	\$ 38,176	\$506,295	\$ 469,045	\$ 583,260	\$ 507,221
Operating Grants and Contributions	12,675,981	14,156,022			12,675,981	14,156,022
Capital Grants and Contributions	-	-			-	-
General Revenues						
Taxes	9,802,967	10,237,298			9,802,967	10,237,298
Miscellaneous and Other	1,766,127	1,765,013	8,433	7,861	1,774,560	1,772,874
Total Revenue	<u>24,322,040</u>	<u>26,196,509</u>	<u>514,728</u>	<u>476,906</u>	<u>24,836,768</u>	<u>26,673,415</u>
Expenses						
General						
Government	3,698,040	3,032,663			3,698,040	3,032,663
Protection to Persons and Property	10,869,954	12,271,256			10,869,954	12,271,256
General Health and Sanitation	1,564,655	945,827			1,564,655	945,827
Social Services	1,104,366	1,054,538			1,104,366	1,054,538
Recreation and Culture	669,287	631,736			669,287	631,736
Roads	3,303,145	1,944,234			3,303,145	1,944,234
Intergovernmental	1,091,462	2,052,010			1,091,462	2,052,010
Fringe Benefits	2,234,537	2,782,319			2,234,537	2,782,319
Debt Service	573,476	340,008			573,476	340,008
Jail Canteen	-	-	465,607	506,943	465,607	506,943
Total Expenses	<u>25,108,922</u>	<u>25,054,591</u>	<u>465,607</u>	<u>506,943</u>	<u>25,574,529</u>	<u>25,561,534</u>
Transfers	<u>(350,000)</u>	<u>(229,000)</u>	<u>-</u>	<u>-</u>	<u>(350,000)</u>	<u>(229,000)</u>
Change In Net Assets	(1,136,882)	912,918	49,121	(30,037)	(1,087,761)	882,881
Net Assets - Beginning	<u>40,609,632</u>	<u>39,472,750</u>	<u>71,695</u>	<u>120,816</u>	<u>40,681,327</u>	<u>39,593,566</u>
Net Assets - Ending	<u>\$39,472,750</u>	<u>\$40,385,668</u>	<u>\$120,816</u>	<u>\$ 90,779</u>	<u>\$39,593,566</u>	<u>\$40,476,447</u>

**LAUREL COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended June 30, 2007
(Continued)**

Financial Analysis of the County's Funds

As noted earlier, Laurel County uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

Governmental Funds Overview. The focus of Laurel County governmental funds is to provide information on current inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of June 30, 2007 fiscal year, the combined ending fund balances of County governmental funds were \$1,334,784. Approximately \$1,036,634 of this consists of unreserved fund balance, which is available as working capital and for current spending in accordance with the purposes of the specific funds. The remainder of fund balance is reserved to indicate that it is not available for new spending because it is committed for the various encumbrances.

The County has (9) nine major and (4) four non-major governmental funds, as list on page 6.

1. The General Fund is the chief operating fund of Laurel County. At the end of June 30, 2007 fiscal year, unreserved fund balance of the General Fund was \$105,344, while total fund balance was \$119,692. The General Fund receipted \$3,254,946 in real and personal property, motor vehicle, and other taxes for approximately 32% of the County's general fund revenues.
2. The Road and Bridge Fund is the fund related to County road and bridge construction and maintenance. The Road Fund had a \$1,530 fund balance at June 30, 2007. The fiscal year 2007 expenditures for Road Fund were \$2,257,818.
3. The Jail Fund is used to account for the operation of the County's detention program. The Jail Fund had a balance at June 30, 2007 of \$2,039. The Jail Fund received \$1,830,103 from intergovernmental agencies, primarily for housing prisoners.
4. The Occupational Tax Fund had a fund balance of \$26,777 as of June 30, 2007. The Occupational Tax Fund receipted \$6,966,619 from occupational taxes. This accounted for 26% of the County's general revenues.
5. The General Obligation Bond Fund had a balance of \$107,719 as of June 30, 2007. These funds are restricted for the courthouse renovation project.
6. The Laurel County Courthouse Annex, Inc. at the end of June 30, 2007 fiscal year, had a fund balance of \$196.
7. The Laurel County Section 8 Housing at the end of June 30, 2007, had a fund balance of \$264,166. These funds are to provide rental assistance to low-income families.
8. The Local Government Economic Assistance Fund had a balance of \$142,090 as of June 30, 2007.

**LAUREL COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended June 30, 2007
(Continued)**

Financial Analysis of the County's Funds (Continued)

Governmental Funds Overview (Continued)

9. The Forest Fire Fund had a balance of \$1,065 as of June 30, 2007 and is used to account for forest fire tax receipts. Expenditures of \$2,232 were spent for protection to persons and property.
10. The Local Government Economic Development Fund had a fund balance of \$127 as of June 30, 2007.
11. The Chemical Stockpile Emergency Preparedness Program Fund received intergovernmental funds of \$3,000,376 and expended \$2,186,546 for protections to persons and property and fringe benefits.
12. Economic Development Fund had a fund balance of \$127,103 as of June 30, 2007.
13. The Camp Wildcat Fund had a balance of \$12,589 as of June 30, 2007.

Proprietary Funds Overview. The County's proprietary fund statements provide the same type of information found in the government-wide statements, but in more detail.

Laurel County has one (1) enterprise proprietary fund, it is:

- Jail Canteen Fund

The Jail Canteen Fund's unrestricted net assets at the end of June 30, 2007 fiscal year, amounted to \$90,779 which also totaled net assets.

General Fund Budgetary Highlights

Laurel County's General Fund budget was amended during the fiscal year increasing the budgeted amount to \$9,594,178. Budget amendments were made to various expenditures due to surplus cash carried forward and an increase in actual tax revenue.

Capital Assets and Debt Administration

Capital Assets. Laurel County's investment in capital assets for its government and business type activities as of June 30, 2007, amount to \$50,163,861 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements to land other than buildings, machinery and equipment, vehicles, current infrastructure additions, and construction in progress for courthouse improvement. Laurel County has elected to report infrastructure assets per GASB 34 provisions.

Additional information on the County's capital assets can be found in Note 4 of this report.

**LAUREL COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended June 30, 2007
(Continued)**

Capital Assets and Debt Administration (Continued)

**Table 3
Laurel County's Capital Assets, Net of Accumulated Depreciation**

	Governmental Activities		Business-Type Activities		Total	
	2006	2007	2006	2007	2006	2007
Infrastructure Assets	\$ 34,646,697	\$ 34,556,253			\$ 34,646,697	\$ 34,556,253
Land	2,155,564	2,273,704			2,155,564	2,273,704
Construction in Progress	-	302,489			-	302,489
Buildings and Improvements	11,459,622	11,202,021			11,459,622	11,202,021
Other Equipment	795,783	814,304			795,783	814,304
Vehicles and Equipment	960,088	1,015,090			960,088	1,015,090
Total Net Capital Assets	<u>\$ 50,017,754</u>	<u>\$ 50,163,861</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,017,754</u>	<u>\$ 50,163,861</u>

Long-Term Debt. At the end of the 2007 fiscal year, Laurel County had total bonded debt and capital leases outstanding of \$11,539,907. Additional information on the County's debt can be found in Notes 5, 6, and 7 of this report.

Other Matters. The following factors are expected to have a significant effect on the County's financial position or results of operations and were taken into account in developing the 2007 fiscal year budget:

- The 2007 fiscal year adopted budget continues most services at current levels.
- Program cuts at the State level, particularly relating to the cost of housing prisoners, may have a negative impact on funding for county programs.
- Economic factors indicate continued growth for Laurel County.

Requests For Information

This financial report is designed to provide a general overview of Laurel County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided herein or requests for additional financial information should be addressed to the Laurel County Treasurer, 101 South Main Street, London KY 40741.

LAUREL COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
June 30, 2007

	Primary Government			
	Governmental Activities	Business - Type Activities	Totals	Component Unit
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 1,334,784	\$ 90,779	\$ 1,425,563	\$ 62,995
Notes Receivable Due Within One Year	<u>22,508</u>	<u>-</u>	<u>22,508</u>	<u>-</u>
Total Current Assets	<u>1,357,292</u>	<u>90,779</u>	<u>1,448,071</u>	<u>62,995</u>
Noncurrent Assets:				
Notes Receivable Due in More Than One Year	404,422	-	404,422	-
Capital Assets - Net of Accumulated Depreciation:				
Land	2,273,704	-	2,273,704	-
Buildings	11,202,021	-	11,202,021	-
Other Equipment	814,304	-	814,304	316,658
Vehicles and Equipment	1,015,090	-	1,015,090	-
Infrastructure	34,556,253	-	34,556,253	-
Construction in Progress	<u>302,489</u>	<u>-</u>	<u>302,489</u>	<u>-</u>
Total Noncurrent Assets	<u>50,568,283</u>	<u>-</u>	<u>50,568,283</u>	<u>316,658</u>
Total Assets	<u>51,925,575</u>	<u>90,779</u>	<u>52,016,354</u>	<u>379,653</u>
LIABILITIES				
Current Liabilities:				
Capital Leases	181,553	-	181,553	-
Bonds Payable	<u>515,000</u>	<u>-</u>	<u>515,000</u>	<u>-</u>
Total Current Liabilities	<u>696,553</u>	<u>-</u>	<u>696,553</u>	<u>-</u>
Noncurrent Liabilities:				
Capital Leases	2,348,354	-	2,348,354	-
Bonds Payable	<u>8,495,000</u>	<u>-</u>	<u>8,495,000</u>	<u>-</u>
Total Noncurrent Liabilities	<u>10,843,354</u>	<u>-</u>	<u>10,843,354</u>	<u>-</u>
Total Liabilities	<u>11,539,907</u>	<u>-</u>	<u>11,539,907</u>	<u>-</u>
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	38,623,954	-	38,623,954	316,658
Unrestricted	<u>1,761,714</u>	<u>90,779</u>	<u>1,852,493</u>	<u>62,995</u>
Total Net Assets	<u>\$40,385,668</u>	<u>\$ 90,779</u>	<u>\$40,476,447</u>	<u>\$ 379,653</u>

See notes to financial statements.

LAUREL COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2007

Functions/Programs Reporting Entity	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 3,032,663	\$ -	\$ 970,752	\$ -
Protection to Persons and Property	12,271,256	38,176	10,445,897	-
General Health and Sanitation	945,827	-	-	-
Social Services	1,054,538	-	1,179,604	-
Recreation and Culture	631,736	-	-	-
Roads	1,944,234	-	1,559,769	-
Fringe Benefits	2,782,319	-	-	-
Intergovernmental	2,281,010	-	-	-
Interest on Long-term and Short-term Debt	<u>340,008</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Governmental Activities	<u>25,283,591</u>	<u>38,176</u>	<u>14,156,022</u>	<u>-</u>
Business-type Activities:				
Jail Canteen	<u>506,943</u>	<u>469,045</u>	<u>-</u>	<u>-</u>
Total Business-type Activities	<u>506,943</u>	<u>469,045</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ 25,790,534</u>	<u>\$ 507,221</u>	<u>\$ 14,156,022</u>	<u>\$ -</u>
Component Unit				
London-Laurel Communications Center	<u>\$ 915,082</u>	<u>\$ 377,243</u>	<u>\$ -</u>	<u>\$ -</u>

General Revenues:

Taxes:

Real Property Taxes
Personal Property Taxes
Motor Vehicles Taxes and Licenses
Occupational Taxes
Tourist Tax
911 Tax
Other Taxes
Excess Fees
Licenses and Permits
Rental Income
Intergovernmental Revenues
Unrestricted Investment Earnings
Other Revenues

Total General Revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

See notes to financial statements.

**Net (Expenses) Revenues
and Changes in Net Assets**

Primary Government			
Governmental Activities	Business-Type Activities	Totals	Component Unit
\$ (2,061,911)	\$ -	\$ (2,061,911)	
(1,787,183)	-	(1,787,183)	
(945,827)	-	(945,827)	
125,066	-	125,066	
(631,736)	-	(631,736)	
(384,465)	-	(384,465)	
(2,782,319)	-	(2,782,319)	
(2,281,010)	-	(2,281,010)	
		-	
<u>(340,008)</u>	<u>-</u>	<u>(340,008)</u>	
<u>(11,089,393)</u>	<u>-</u>	<u>(11,089,393)</u>	
<u>-</u>	<u>(37,898)</u>	<u>(37,898)</u>	
<u>-</u>	<u>(37,898)</u>	<u>(37,898)</u>	
<u>(11,089,393)</u>	<u>(37,898)</u>	<u>(11,127,291)</u>	
			<u>\$ (537,839)</u>
1,401,869	-	1,401,869	-
177,817	-	177,817	-
300,202	-	300,202	-
6,966,619	-	6,966,619	-
393,167	-	393,167	-
175,549	-	175,549	-
822,075	-	822,075	-
298,803	-	298,803	-
284,927	-	284,927	-
124,553	-	124,553	-
-	-	-	153,110
42,945	1,139	44,084	521
<u>1,013,785</u>	<u>6,722</u>	<u>1,020,507</u>	<u>222,035</u>
<u>12,002,311</u>	<u>7,861</u>	<u>12,010,172</u>	<u>375,666</u>
912,918	(30,037)	882,881	(162,173)
<u>39,472,750</u>	<u>120,816</u>	<u>39,593,566</u>	<u>541,826</u>
<u>\$ 40,385,668</u>	<u>\$ 90,779</u>	<u>\$ 40,476,447</u>	<u>\$ 379,653</u>

See notes to financial statements.

LAUREL COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2007

	<u>General Fund</u>	<u>Road and Bridge Fund</u>	<u>Jail Fund</u>	<u>LGEA Fund</u>	<u>Occupational Tax Fund</u>
ASSETS					
Cash and Cash Equivalents	\$ 119,692	\$ 1,530	\$ 2,039	\$ 142,090	\$ 26,777
Total Assets	<u>\$ 119,692</u>	<u>\$ 1,530</u>	<u>\$ 2,039</u>	<u>\$ 142,090</u>	<u>\$ 26,777</u>
FUND BALANCES					
Fund Balances:					
Reserved for:					
Encumbrances	\$ 14,348	\$ 123,421	\$ 56,724	\$ -	\$ 323
Unreserved:					
General Fund	105,344	-	-	-	-
Special Revenue Fund	<u>-</u>	<u>(121,891)</u>	<u>(54,685)</u>	<u>142,090</u>	<u>26,454</u>
Total Fund Balances	<u>\$ 119,692</u>	<u>\$ 1,530</u>	<u>\$ 2,039</u>	<u>\$ 142,090</u>	<u>\$ 26,777</u>

**Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets:**

Total Fund Balances

Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported in governmental funds.

Accumulated depreciation

Notes receivable are not financial resources and therefore not reported in
governmental funds.

Liabilities:

Due within one year - bonds, notes, and other principal payments

Due in more than one year - bonds, notes and other principal payments

Net Assets of Governmental Activities

See notes to financial statements.

<u>Economic Development Fund</u>	<u>CSEPP Fund</u>	<u>General Obligation Bond Fund</u>	<u>Laurel County Section 8 Housing</u>	<u>Non- Major Funds</u>	<u>Total Governmental Funds</u>
\$ 127,103	\$ 529,691	\$ 107,719	\$ 264,166	\$ 13,977	\$ 1,334,784
<u>\$ 127,103</u>	<u>\$ 529,691</u>	<u>\$ 107,719</u>	<u>\$ 264,166</u>	<u>\$ 13,977</u>	<u>\$ 1,334,784</u>
\$ -	\$ 103,334	\$ -	\$ -	\$ -	\$ 298,150
-	-	-	-	-	105,344
<u>127,103</u>	<u>426,357</u>	<u>107,719</u>	<u>264,166</u>	<u>13,977</u>	<u>931,290</u>
<u>\$ 127,103</u>	<u>\$ 529,691</u>	<u>\$ 107,719</u>	<u>\$ 264,166</u>	<u>\$ 13,977</u>	<u>\$ 1,334,784</u>
					\$ 1,334,784
					117,585,426
					(67,421,565)
					426,930
					(696,553)
					<u>(10,843,354)</u>
					<u>\$ 40,385,668</u>

See notes to financial statements.

LAUREL COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2007

	<u>General Fund</u>	<u>Road and Bridge Fund</u>	<u>Jail Fund</u>	<u>LGEA Fund</u>	<u>Occupational Tax Fund</u>
Revenues					
Taxes	\$ 3,254,946	\$ 14,249	\$ -	\$ -	\$ 6,966,619
Excess Fees	298,803	-	-	-	-
Licenses and Permits	3,300	238,390	43,237	-	-
Intergovernmental	6,035,636	1,559,769	1,830,103	361,534	-
Charges for Services	-	-	38,176	-	-
Rent	30,553	-	-	-	-
Miscellaneous	541,228	86,511	357,172	-	1,761
Interest	<u>3,848</u>	<u>8,579</u>	<u>1,596</u>	<u>3,443</u>	<u>5,050</u>
Total Revenues	<u>10,168,314</u>	<u>1,907,498</u>	<u>2,270,284</u>	<u>364,977</u>	<u>6,973,430</u>
Expenditures					
General Government	2,523,517	1,814	525	-	229,972
Protection to Persons and Property	6,916,811	-	2,809,550	-	-
General Health and Sanitation	896,062	-	-	-	-
Social Services	67,676	-	-	-	-
Recreation and Culture	628,845	-	-	-	-
Roads	6,286	1,743,238	-	-	-
Debt Service	487,214	73,732	-	-	-
Capital Projects	415,982	-	-	-	-
Fringe Benefits	1,484,630	439,034	806,349	-	43,571
Intergovernmental	<u>1,755,392</u>	<u>-</u>	<u>-</u>	<u>525,618</u>	<u>-</u>
Total Expenditures	<u>15,182,415</u>	<u>2,257,818</u>	<u>3,616,424</u>	<u>525,618</u>	<u>273,543</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(5,014,101)</u>	<u>(350,320)</u>	<u>(1,346,140)</u>	<u>(160,641)</u>	<u>6,699,887</u>
Other Financing Sources (Uses)					
Debt Proceeds	286,800	-	-	-	-
Transfers from Other Funds	5,157,000	270,000	1,277,000	-	-
Transfers to Other Funds	<u>(422,655)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,704,000)</u>
Total Other Financing Sources (Uses)	<u>5,021,145</u>	<u>270,000</u>	<u>1,277,000</u>	<u>-</u>	<u>(6,704,000)</u>
Net Change in Fund Balances	7,044	(80,320)	(69,140)	(160,641)	(4,113)
Fund Balances - Beginning	<u>112,648</u>	<u>81,850</u>	<u>71,179</u>	<u>302,731</u>	<u>30,890</u>
Fund Balances - Ending	<u>\$ 119,692</u>	<u>\$ 1,530</u>	<u>\$ 2,039</u>	<u>\$ 142,090</u>	<u>\$ 26,777</u>

See notes to financial statements.

Economic Development Fund	CSEPP Fund	General Obligation Bond Fund	Laurel County Section 8 Housing	Non- Major Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 1,484	\$ 10,237,298
-	-	-	-	-	298,803
-	-	-	-	-	284,927
-	3,000,376	-	1,179,604	189,000	14,156,022
-	-	-	-	-	38,176
-	-	-	-	94,000	124,553
21,292	26,846	-	164	103	1,035,077
<u>14,219</u>	<u>-</u>	<u>70</u>	<u>3,790</u>	<u>2,350</u>	<u>42,945</u>
<u>35,511</u>	<u>3,027,222</u>	<u>70</u>	<u>1,183,558</u>	<u>286,937</u>	<u>26,217,801</u>
-	116	-	171,365	31	2,927,340
-	2,186,546	-	-	146,232	12,059,139
-	-	-	-	15,000	911,062
-	-	-	980,294	-	1,047,970
-	-	-	-	-	628,845
-	-	-	-	-	1,749,524
-	-	410,615	-	-	971,561
-	302,489	3,000	-	103,286	824,757
-	8,645	-	-	90	2,782,319
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,281,010</u>
<u>-</u>	<u>2,497,796</u>	<u>413,615</u>	<u>1,151,659</u>	<u>264,639</u>	<u>26,183,527</u>
<u>35,511</u>	<u>529,426</u>	<u>(413,545)</u>	<u>31,899</u>	<u>22,298</u>	<u>34,274</u>
-	-	-	-	-	286,800
-	-	518,069	-	-	7,222,069
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(95,414)</u>	<u>(7,222,069)</u>
<u>-</u>	<u>-</u>	<u>518,069</u>	<u>-</u>	<u>(95,414)</u>	<u>286,800</u>
35,511	529,426	104,524	31,899	(73,116)	321,074
<u>91,592</u>	<u>265</u>	<u>3,195</u>	<u>232,267</u>	<u>87,093</u>	<u>1,013,710</u>
<u>\$ 127,103</u>	<u>\$ 529,691</u>	<u>\$ 107,719</u>	<u>\$ 264,166</u>	<u>\$ 13,977</u>	<u>\$ 1,334,784</u>

See notes to financial statements.

LAUREL COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES- MODIFIED CASH BASIS
For The Year Ended June 30, 2007

Net change in fund balances - total governmental funds	\$ 321,074
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.	
Capital outlay	2,710,850
Depreciation expense	(2,563,343)
The proceeds for the sale of fixed assets provide current financial resources and are reported in this fund financial statement but only the gain or loss is presented in the statement of net assets. This amount represents net book value of the capital asset disposed of.	(1,400)
Governmental funds report issuance of notes receivable as expenditures when paid. However, in the statement of net assets notes receivable are presented as assets.	122,276
Governmental funds report receipt of principal payments on notes receivable as revenue when received. However, in the statement of net assets notes receivable are presented as assets.	(21,292)
The proceeds for the issuance of bonds provide current financial resources and are reported in this fund financial statement but they are presented as liabilities in the statement of net assets.	(286,800)
Financing obligations and bond principal payments are recognized as expenditures of current financial resources in the fund financial statements but are reductions of liabilities in the statement of net assets.	<u>631,553</u>
Change in net assets of governmental activities	<u>\$ 912,918</u>

See notes to financial statements.

LAUREL COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS
June 30, 2007

	<u>Enterprise Fund</u>
	<u>Jail Canteen Fund</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 90,779
Total Current Assets	<u>90,779</u>
Net Assets	
Unrestricted	<u>90,779</u>
Total Net Assets	<u>\$ 90,779</u>

See notes to financial statements.

LAUREL COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS
For The Year Ended June 30, 2007

	<u>Enterprise Fund</u>
	<u>Jail Canteen Fund</u>
Operating Revenues	
Canteen Receipts Net of Refunds	\$ 469,045
 Total Operating Revenue	 469,045
Operating Expenses	
Cost of Sales	367,229
Medical	3,707
Miscellaneous	9,452
Personnel	113,613
Supplies	<u>12,942</u>
 Total Operating Expenses	 <u>506,943</u>
 Operating Loss	 (37,898)
Nonoperating Revenues (Expenses)	
Interest Income	1,139
Inmate Pay From State	<u>6,722</u>
 Total Nonoperating Revenues (Expenses)	 <u>7,861</u>
 Change in Net Assets	 (30,037)
Total Net Assets - Beginning	<u>120,816</u>
Total Net Assets - Ending	<u>\$ 90,779</u>

See notes to financial statements.

LAUREL COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS
For The Year Ended June 30, 2007

	<u>Enterprise Fund</u>
	<u>Jail Canteen Fund</u>
Cash Flows From Operating Activities	
Receipts from Inmates	\$ 469,045
Cost of Sales	(367,229)
Payments to Suppliers for Goods and Services	<u>(139,714)</u>
Net Cash Used in Operating Activities	(37,898)
Cash Flows From Noncapital Financing Activities	
Inmate Pay From State	<u>6,722</u>
Net Cash Provided by Noncapital Financing Activities	6,722
Cash Flows From Investing Activities	
Interest Earned	<u>1,139</u>
Net Cash Provided by Investing Activities	<u>1,139</u>
Net Decrease in Cash and Cash Equivalents	(30,037)
Cash and Cash Equivalents - July 1, 2006	<u>120,816</u>
Cash and Cash Equivalents - June 30, 2007	<u>\$ 90,779</u>
Reconciliation of Operating Income to Net Cash Used in Operating Activities	
Operating Loss	<u>\$ (37,898)</u>
Total Cash Used in Operating Activities	<u>\$ (37,898)</u>

See notes to financial statements.

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2007

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

Laurel County presents its government wide and fund financial statements utilizing a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the County to report capital assets and infrastructure; however, the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Laurel County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusions would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented.

Blended Component Unit

The following legally separate organizations provide their services exclusively to the primary government, and the fiscal court is able to impose its will on these organizations. These organizations' balances and transactions are reported as though they are part of the county's primary government using the blending method.

Laurel County Courthouse Annex, Inc.

Laurel County Courthouse Annex, Inc. (Corporation) is a legally separate entity established to provide long-term debt service for the Laurel County Fiscal Court. The Corporation's governing body consists entirely of fiscal court members. Therefore, the fiscal court is financially accountable and legally obligated for the debt of the Laurel County Courthouse Annex, Inc. Financial information for the Laurel County Courthouse Annex, Inc. is blended within Laurel County's financial statements.

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Laurel County Section 8 Housing

The Laurel County Fiscal Court has entered into a contract with the U.S. Department of Housing and Urban Development for the administration of a Housing Assistance Payments Program. The Department makes annual contributions (subsidies) to the Program to provide rental assistance to low-income families and administrative costs of the program. The program provides rental assistance to approximately 300 low-income families.

Laurel County Fiscal Court exercises oversight responsibility over Laurel County Section 8 Housing. Oversight responsibility is defined to include, but is not limited to: financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters. Financial information for Laurel County Section 8 Housing is blended within Laurel County's financial statements.

Audited financial statements for the Laurel County Section 8 Housing, a blended component unit, may be requested by contacting the Laurel County Section 8 Housing, London, Kentucky 40741.

The financial statements of Laurel County Section 8 Housing, a blended component unit, are prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. However, the auditor of Laurel County Section 8 Housing provided us with financial statements prepared on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Discretely Presented Component Unit

The following legally separate organization provides its services primarily to the Laurel County Fiscal Court, the City of London, and the citizens of Laurel County. This organization's balances and transactions are discretely presented in the Statement of Net Assets and Statement of Activities of the Laurel County Fiscal Court.

London-Laurel County Communications Center

The London-Laurel County Communications Center was established in 1989 by the Laurel County Fiscal Court and the City of London in accordance with Kentucky Revised Statutes 65.750-65.760 to provide dispatching services primarily to local public safety agencies and provide 9-1-1 emergency services to citizens in the local community.

The Laurel County Fiscal Court appoints a majority of the board of directors. The Laurel County Fiscal Court and the City of London provide reimbursements of expenses based on their respective proportional share of use. The Laurel County Fiscal Court reimburses a majority share of the Communication Center's expenses.

Audited financial statements for the London-Laurel County Communications Center, a discretely presented component unit, may be requested by contacting the London-Laurel County Communication Center, London, Kentucky 40741.

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

The financial statements of London-Laurel County Communications Center, a discretely presented component unit, are prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. However, the auditor of London-Laurel County Communications Center provided us with financial statements prepared on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Additional - Laurel County Elected Officials

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff
- Coroner

Kentucky law provides for election of the above officials from the geographic area constituting Laurel County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the County and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

C. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Fiduciary Funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function.

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Government-wide and Fund Financial Statements (Continued)

Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function, 2) operating grants and contributions and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

The statement of net assets and the statement of activities display information about the County as a whole. The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary funds) and whose total assets, liabilities, revenues or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The Fiscal Court may also designate any fund as a major fund.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The government reports the following major governmental funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road and Bridge Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund – This fund is used to account for the jail expenses of the County. The primary sources of revenue for this fund are reimbursements from the state and federal government, from other counties for housing prisoners, and transfers from other funds. The Department for Local Government requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

LGEA Fund - This fund is used to account for the Local Government Economic Assistance activity.

Occupational Tax Fund - This fund is used to collect the occupational payroll and net profit taxes. The occupational tax fund receipts are used to supplement the general operations of the Fiscal Court.

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Economic Development Fund - This fund is used to account for loans made to local businesses to expand the local economy. The primary sources of revenue for this fund are from the receipt of principal and interest.

CSEPP Fund – These funds are received from the Department of Homeland Security and are to be used solely for the purpose of providing emergency preparedness in case of an accident involving the stockpile of chemical weapons at the Blue Grass Army Depot in Madison County. In no event shall these funds be used for expenses relating to the administration of the government. The Department for Local Government requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

General Obligation Bond Fund - This fund is used to account for debt service requirements of general obligation bonds of the Fiscal Court. The Department for Local Government does not require the Fiscal Court to report or budget this fund.

Laurel County Section 8 Housing - The Laurel County Section 8 Housing accounts for rental assistance receipts from U.S. Department of Housing and Urban Development for the administration of a Housing Assistance Payments Program used to assist low-income families and administrative costs of the program. Funds are legally restricted for specific purposes. The Department for Local Government does not require the Fiscal Court to report or budget these funds.

The government also has the following non-major funds: Forest Fire Fund, LGED Fund, Camp Wildcat Fund and Courthouse Annex Fund, which are presented as Special Revenue Funds. These funds are used to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the County's enterprise fund are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise fund include the cost of sales and services and administrative expenses. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Property Tax

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, due with 2% discount if paid by November 1, due at face value if paid by December 31, delinquent on and after January 1 following the assessment, and subject to lien and sale on the 3rd Saturday in April following the delinquency date.

E. Cash

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the County to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, vehicles, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and construction in progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the assets.

Description	Capitalization Threshold	Useful Life (Years)
Land improvements	\$ 25,000	Unlimited
Buildings and building improvements	25,000	1-50
Vehicles	5,000	1-5
Machinery and equipment	5,000	5-15
Infrastructure	25,000	10-50

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designed and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the statement of net assets and statement of activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

J. Joint Ventures

A legal entity or other organization that results from contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility, is a joint venture. Based upon these criteria, the following are considered joint ventures of the Laurel County Fiscal Court:

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Joint Ventures (Continued)

City-County Industrial Development Authority

The Laurel County Fiscal Court (Fiscal Court) has retained an ongoing financial responsibility for the City-County Industrial Development Authority (Development Authority). The Development Authority is a joint venture between Fiscal Court and City of London for the purpose of promoting and fostering the gainful employment, business, and economic development opportunities and general welfare of the citizens and residents of both the City of London and Laurel County.

London-Laurel Industrial Development Authority

The London-Laurel Industrial Development Authority (Authority) was established in 1971 by the Laurel County Fiscal Court in accordance with Kentucky Revised Statute 154.50 to assist in the acquisition, retention, and development of land for industrial and commercial purposes in order to stimulate industrial development in Laurel County, Kentucky. The Authority was reorganized in 2001 as a joint creation of the County of Laurel, Kentucky and the City of London, Kentucky.

London-Laurel County Tourist Commission

The Laurel County Fiscal Court (Fiscal Court) has retained an ongoing financial responsibility for the London-Laurel County Tourist Commission (Tourist Commission). The Tourist Commission is a joint venture between the Fiscal Court and City of London to assist and promote convention and tourism of the county and city.

Note 2. Deposits and Investments

The County maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County and the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and an official record of the depository institution.

Custodial Credit Risk Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2007
(Continued)

Note 3. Long-Term Receivables

On March 5, 2001, Laurel County loaned Kinlee Stables Riding Center, Inc. \$120,000 from the Industrial Development Fund. The loan was for a period of 180 months with interest payments of \$400 for 9 months beginning April 1, 2001 through December 1, 2001. The remaining balance was for a period of 171 months at 4 percent interest with monthly payments of \$921 beginning January 1, 2002. For the fiscal year ended June 30, 2007, records indicate Kinlee Stables Riding Center, Inc. made principal payments of \$2,046. Kinlee Stables Riding Center, Inc. was not in substantial compliance with the terms of the loan agreement. The principal balance due at June 30, 2007 was \$120,938.

On June 19, 2004, Laurel County loaned Parkway Medical Associates \$360,000 from the Industrial Development Fund. The loan was for a period of 180 months at 4 percent interest with 180 equal monthly payments in the amount of \$2,674. As of June 30, 2007 records indicate that Parkway Medical Associates was in substantial compliance with the terms of the loan agreement. The principal balance due at June 30, 2007 was \$305,992.

<u>Company</u>	<u>Principal Amount Borrowed</u>	<u>Interest Rate</u>	<u>Principal Due as Of June 30, 2007</u>
Parkway Medical Associates	\$ 360,000	4%	\$ 305,992
Kinlee Stables Riding Center, Inc	<u>120,000</u>	4%	<u>120,938</u>
	<u>\$ 480,000</u>		<u>\$ 426,930</u>

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2007
(Continued)

Note 4. Capital Assets

Capital assets activity for the year ended June 30, 2007 was as follows:

	Primary Government		
	Beginning Balance	Increases	Decreases
			Ending Balance
Governmental Activities:			
Capital assets not being depreciated:			
Land	\$ 2,155,564	\$ 118,140	\$ -
Construction in progress	-	302,489	-
Total capital assets not being depreciated	2,155,564	420,629	-
Capital assets, being depreciated:			
Buildings	15,036,267	-	-
Other equipment	1,333,974	113,281	(5,500)
Vehicles and equipment	3,025,932	286,800	(173,000)
Infrastructure	93,501,339	1,890,140	-
Total capital assets being depreciated	112,897,512	2,290,221	(178,500)
Less accumulated depreciation for:			
Buildings	(3,576,645)	(257,601)	-
Other equipment	(538,191)	(94,760)	5,500
Vehicles and equipment	(2,065,844)	(230,398)	171,600
Infrastructure	(58,854,642)	(1,980,584)	-
Total accumulated depreciation	(65,035,322)	(2,563,343)	177,100
Total capital assets, being depreciated, net	47,862,190	(273,122)	(1,400)
Government activities capital assets, net	\$ 50,017,754	\$ 147,507	\$ (1,400)

Depreciation expense was charged to functions of the primary government as follows:

Government Activities:	
General government	\$ 222,152
Protection to persons and property	212,117
General health and sanitation	34,765
Social services	6,568
Recreation and culture	2,891
Roads, including depreciation of general infrastructure assets	2,084,850
Total depreciation expense - governmental activities	\$ 2,563,343

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2007
(Continued)

Note 5. Long-Term Debt

A. General Obligation Refunding Bonds, Series 2003

The Laurel County Fiscal Court issued obligations of \$4,840,000, dated March 1, 2003 and payable in 15 annual installments beginning June 1, 2003 and semi-annual interests payments on the first of June and December at varying rates from 1.00% to 3.90%. The Fiscal Court issued the bonds for the purpose of refunding the Series 1992 and 1993 bonds issued by Laurel County Courthouse Annex, Inc., purchasing road equipment, and paying the cost of issuance of the bonds. As of June 30, 2007, bonds outstanding were \$3,345,000. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2008	\$ 114,380	\$ 285,000
2009	107,113	295,000
2010	98,557	305,000
2011	89,950	315,000
2012	78,713	325,000
2013-2017	<u>211,797</u>	<u>1,820,000</u>
Totals	<u>\$ 700,510</u>	<u>\$ 3,345,000</u>

General Obligation Improvement Bonds, Series 2003

The Laurel County Fiscal Court issued obligations of \$6,110,000, dated December 16, 2003 and payable in 20 annual installments beginning January 1, 2005 and semi-annual interest payments on the first of June and December at varying rates from 3% to 4.25%. The Fiscal Court issued the bonds for the purpose of financing the improvement and renovation of the courthouse, including reimbursing the county for cost associated therewith, capitalize interest for 18 months, and paying the cost of the issuance of the bonds. As of June 30, 2007, bonds outstanding were \$5,665,000. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2008	\$ 214,908	\$ 230,000
2009	208,008	240,000
2010	200,807	245,000
2011	193,458	255,000
2012	185,553	260,000
2013-2017	786,762	1,450,000
2018-2022	487,157	1,750,000
2023-2025	<u>106,462</u>	<u>1,235,000</u>
Totals	<u>\$ 2,383,115</u>	<u>\$ 5,665,000</u>

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2007
(Continued)

Note 6. Capital Lease Agreements

A. KACLT Leases – Justice Center

In September 2005, the County entered into a \$2,280,000 20-year lease purchase agreement with the Kentucky Association of Counties Leasing Trust for the purpose of providing financing for the purchase of land adjacent to the Laurel County Detention Center, construction of roads, sewers and water lines for the Laurel County Economic Development Authority, and construction of water lines for the Wood Creek, East Laurel, West Laurel and Laurel Water District #2. Interest related to the lease is payable on the 20th day of each month and principal payments are due on December 20 of each year. The lease bears interest at an average rate of 3.9% over the term of the agreement. Future lease principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2008	\$ 99,472	\$ 90,000
2009	96,355	95,000
2010	91,933	95,000
2011	87,341	100,000
2012	82,784	100,000
2013-2017	339,800	545,000
2018-2022	205,284	615,000
2023-2025	<u>54,599</u>	<u>550,000</u>
Totals	<u>\$ 1,057,568</u>	<u>\$ 2,190,000</u>

B. Farmers Bank Lease – Sheriff's Equipment

In February 2004, the County entered into a \$132,766 5-year leasing agreement with Farmers Bank and Capital Trust Co., with payments being made to Leasing One Corporation, for the purchase of five Sheriff's cruisers and equipment; however the Laurel County Sheriff's Department is making the payments. Payments are due annually by February 15. Future lease principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2008	-	26,553
2009	<u>-</u>	<u>26,554</u>
Totals	<u>\$ -</u>	<u>\$ 53,107</u>

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2007
(Continued)

Note 6. Capital Lease Agreements (Continued)

C. KACLT Leases – Dump Trucks

In March 2007, the County entered into a \$286,800 4-year lease purchase agreement with the Kentucky Association of Counties Leasing Trust for the purpose of providing financing for the purchase of three 2007 Mack Tandem dump trucks. Interest related to the lease is payable on the 20th day of September and March and principal payments are due on March 20 of each year. The lease bears interest at an average rate of 4.6% over the term of the agreement. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2008	\$ 13,189	\$ 65,000
2009	7,504	70,000
2010	4,797	75,000
2011	1,837	76,800
Totals	<u>\$ 27,327</u>	<u>\$ 286,800</u>

Note 7. Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2007 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government					
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 9,525,000	\$ -	\$ 515,000	\$ 9,010,000	\$ 515,000
Capital Lease Agreements	<u>2,359,660</u>	<u>286,800</u>	<u>116,553</u>	<u>2,529,907</u>	<u>181,553</u>
Governmental activities long-term liabilities	<u>\$ 11,884,660</u>	<u>\$ 286,800</u>	<u>\$ 631,553</u>	<u>\$ 11,539,907</u>	<u>\$ 696,553</u>

Note 8. Employee Retirement System

The County has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Non-hazardous covered employees are required to contribute 5 percent of their salary to the plan. The County's contribution rate for non-hazardous employees was 13.19 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The County's contribution rate for hazardous employees was 28.21 percent.

Benefits fully vest on reaching five years of service for non-hazardous employees. Aspects of benefits for non-hazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2007
(Continued)

Note 8. Employee Retirement System (Continued)

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 9. Deferred Compensation

Laurel County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees' Deferred Compensation Authority, 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at 502-573-7925.

Note 10. Commitments and Contingencies

Laurel County is contingently liable for bonds issued December 1, 1998 at 5 percent interest by the Laurel County Care for the Elderly Facilities Public Corporation. The outstanding principal balance at June 30, 2007 was \$6,205,000.

Laurel County is contingently liable for bonds issued August 1, 2006 at 4 percent to 4.875 percent interest by the Laurel County Care for the Elderly Facilities Public Corporation. The outstanding principal balance at June 30, 2007 was \$1,875,000.

Laurel County is currently a defendant in a lawsuit claiming wrongful death. The case is being defended by the County's insurance carrier. The outcome of the case is uncertain. The County has insurance coverage which should be adequate to satisfy this lawsuit in the event of an unfavorable outcome.

Laurel County is currently a defendant in a lawsuit claiming breach of contract. The case is in the early stages of the legal system. The outcome of the case is uncertain, however, the County feels it has a strong defense and has issued a countersuit.

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENTS
For The Year Ended June 30, 2007
(Continued)

Note 11. Interfund Transfers

The following transfers were made during the year:

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Occupational	General	Support for General Operations	\$ 5,157,000
Occupational	Road	Support for Road Operations	270,000
Occupational	Jail	Support for Jail Operations	1,277,000
General	General Obligation Bond Fund	Debt Service	422,655
Courthouse Annex Fund	General Obligation Bond Fund	Debt Service	95,414
			<u>\$ 7,222,069</u>

Note 12. Estimated Building and Infrastructure Historical Cost

Building and infrastructure historical cost on assets placed in service prior to July 1, 2002 is an estimate. The primary government estimated the year buildings and infrastructure were built by determining when a major reconstruction had been done. This estimate was used to calculate the building and infrastructure historical cost by determining current year construction cost and deflating it back to the estimated year of construction or reconstruction. Assets placed in service during the June 30, 2003 fiscal year and subsequent periods are recorded at actual costs.

Note 13. Adjustments to Statement of Revenues, Expenditures, and Changes In Fund Balances-Governmental Funds

The County was approved for High Intensity Drug Trafficking Area (HIDTA) grants totaling \$5,615,418 during fiscal year ended June 30, 2007. These grants went directly to HIDTA without passing through the County's books. The County's Intergovernmental Revenue account was increased by \$5,615,418 and the Protection to Persons and Property expenditures was increased by \$5,615,418 on the "Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds" to show the grant proceeds as if they had passed through the County's books. This results in a difference of \$5,615,418 for these accounts as they are presented on the "Budgetary Comparison Schedules - Major Funds - General Fund."

LAUREL COUNTY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-MODIFIED CASH BASIS
BUDGET AND ACTUAL
GENERAL FUND
For The Year Ended June 30, 2007

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 2,967,700	\$ 3,258,800	\$ 3,254,946	\$ (3,854)
Excess Fees	322,000	409,000	298,803	(110,197)
Licenses and Permits	2,275	2,275	3,300	1,025
Intergovernmental Revenue	326,000	563,000	6,035,636	5,472,636
Rental Income	64,800	64,800	30,553	(34,247)
Miscellaneous	128,700	156,700	541,228	384,528
Interest	6,000	6,000	3,848	(2,152)
 Total Revenues	 3,817,475	 4,460,575	 10,168,314	 5,707,739
EXPENDITURES				
General Government	1,778,594	2,066,760	2,523,517	(456,757)
Protection to Persons and Property	1,380,179	1,448,143	6,916,811	(5,468,668)
General Health and Sanitation	992,127	900,156	896,062	4,094
Social Services	82,250	84,576	67,676	16,900
Recreation and Culture	646,000	631,516	628,845	2,671
Roads	-	6,286	6,286	
Debt Service	845,200	886,877	487,214	399,663
Capital Projects	-	-	415,982	(415,982)
Intergovernmental	1,573,500	1,573,500	1,755,392	(181,892)
Fringe benefits	1,653,228	1,996,364	1,484,630	511,734
 Total Expenditures	 8,951,078	 9,594,178	 15,182,415	 (5,588,237)
Excess (Deficiency) of Revenues Over Expenditures	 (5,133,603)	 (5,133,603)	 (5,014,101)	 119,502
OTHER FINANCING SOURCES (USES)				
Debt Proceeds	-	-	286,800	286,800
Transfers in From Other Funds	4,633,603	4,633,603	4,734,345	100,742
 Total Other Financing Sources and Uses	 4,633,603	 4,633,603	 5,021,145	 387,542
Net Changes in Fund Balances	(500,000)	(500,000)	7,044	507,044
Fund Balances - Beginning	500,000	500,000	112,648	(387,352)
 Fund Balances - Ending	 \$ -	 \$ -	 \$ 119,692	 \$ 119,692

LAUREL COUNTY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-MODIFIED CASH BASIS
BUDGET AND ACTUAL
ROAD AND BRIDGE FUND
For The Year Ended June 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ -	\$ -	\$ 14,249	\$ 14,249
Licenses and Permits	227,690	227,690	238,390	10,700
Intergovernmental Revenue	1,526,796	1,526,796	1,559,769	32,973
Miscellaneous	38,000	38,000	86,511	48,511
Interest	3,000	3,000	8,579	5,579
Total Revenues	<u>1,795,486</u>	<u>1,795,486</u>	<u>1,907,498</u>	<u>112,012</u>
EXPENDITURES				
General Government	-	-	1,814	(1,814)
Debt Service	65,345	73,732	73,732	-
Roads	2,053,488	1,958,968	1,743,238	215,730
Fringe Benefits	366,000	452,133	439,034	13,099
Total Expenditures	<u>2,484,833</u>	<u>2,484,833</u>	<u>2,257,818</u>	<u>227,015</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(689,347)</u>	<u>(689,347)</u>	<u>(350,320)</u>	<u>339,027</u>
OTHER FINANCING SOURCES (USES)				
Transfers in From Other Funds	<u>684,347</u>	<u>684,347</u>	<u>270,000</u>	<u>(414,347)</u>
Net Changes in Fund Balances	(5,000)	(5,000)	(80,320)	(75,320)
Fund Balances - Beginning	<u>5,000</u>	<u>5,000</u>	<u>81,850</u>	<u>76,850</u>
Fund Balances - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,530</u>	<u>\$ 1,530</u>

LAUREL COUNTY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-MODIFIED CASH BASIS
BUDGET AND ACTUAL
JAIL FUND
For The Year Ended June 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental Revenue	\$ 1,574,000	\$ 1,771,274	\$ 1,830,103	\$ 58,829
Charges for Services	14,500	38,176	38,176	-
Licenses and Permits	33,000	43,237	43,237	-
Miscellaneous	325,500	419,055	357,172	(61,883)
Interest	1,000	1,000	1,596	596
Total Revenues	<u>1,948,000</u>	<u>2,272,742</u>	<u>2,270,284</u>	<u>(2,458)</u>
EXPENDITURES				
General Government	-	-	525	(525)
Protection to Persons and Property	2,439,500	2,857,861	2,809,550	48,311
Fringe Benefits	<u>534,550</u>	<u>762,881</u>	<u>806,349</u>	<u>(43,468)</u>
Total Expenditures	<u>2,974,050</u>	<u>3,620,742</u>	<u>3,616,424</u>	<u>4,318</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,026,050)</u>	<u>(1,348,000)</u>	<u>(1,346,140)</u>	<u>1,860</u>
OTHER FINANCING SOURCES (USES)				
Transfers in From Other Funds	<u>976,050</u>	<u>1,277,000</u>	<u>1,277,000</u>	<u>-</u>
Total Other Financing Sources and Uses	<u>976,050</u>	<u>1,277,000</u>	<u>1,277,000</u>	<u>-</u>
Net Changes in Fund Balances	(50,000)	(71,000)	(69,140)	1,860
Fund Balances - Beginning	<u>50,000</u>	<u>71,000</u>	<u>71,179</u>	<u>179</u>
Fund Balances - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,039</u>	<u>\$ 2,039</u>

LAUREL COUNTY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-MODIFIED CASH BASIS
BUDGET AND ACTUAL
LGEA FUND
For The Year Ended June 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u> <u>(Budgetary</u> <u>Basis)</u>	<u>Variance with</u> <u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental Revenues	\$ 52,000	\$ 187,000	\$ 361,534	\$ 174,534
Interest	500	500	3,443	2,943
Total Revenues	<u>52,500</u>	<u>187,500</u>	<u>364,977</u>	<u>177,477</u>
EXPENDITURES				
General Government	-	-	-	-
Intergovernmental	<u>500,000</u>	<u>635,000</u>	<u>525,618</u>	<u>109,382</u>
Total Expenditures	<u>500,000</u>	<u>635,000</u>	<u>525,618</u>	<u>109,382</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(447,500)</u>	<u>(447,500)</u>	<u>(160,641)</u>	<u>286,859</u>
OTHER FINANCING SOURCES (USES)				
Transfers Out to Other Funds	<u>(52,500)</u>	<u>(52,500)</u>	<u>-</u>	<u>52,500</u>
Total Other Financing Sources and Uses	<u>(52,500)</u>	<u>(52,500)</u>	<u>-</u>	<u>52,500</u>
Net Changes in Fund Balances	(500,000)	(500,000)	(160,641)	339,359
Fund Balances - Beginning	<u>500,000</u>	<u>500,000</u>	<u>302,731</u>	<u>(197,269)</u>
Fund Balances - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 142,090</u>	<u>\$ 142,090</u>

LAUREL COUNTY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-MODIFIED CASH BASIS
BUDGET AND ACTUAL
OCCUPATIONAL TAX FUND
For The Year Ended June 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 6,340,000	\$ 6,640,950	\$ 6,966,619	\$ 325,669
Miscellaneous	-	-	1,761	1,761
Interest	4,000	4,000	5,050	1,050
 Total Revenues	 6,344,000	 6,644,950	 6,973,430	 328,480
EXPENDITURES				
General Government	282,139	283,184	229,972	53,212
Fringe Benefits	67,861	66,816	43,571	23,245
 Total Expenditures	 350,000	 350,000	 273,543	 76,457
 Excess (Deficiency) of Revenues Over Expenditures	 5,994,000	 6,294,950	 6,699,887	 404,937
OTHER FINANCING SOURCES (USES)				
Transfers Out to Other Funds	(6,294,000)	(6,594,950)	(6,704,000)	(109,050)
 Total Other Financing Sources and Uses	 (6,294,000)	 (6,594,950)	 (6,704,000)	 (109,050)
 Net Changes in Fund Balances	 (300,000)	 (300,000)	 (4,113)	 295,887
Fund Balances - Beginning	300,000	300,000	30,890	(269,110)
 Fund Balances - Ending	 \$ -	 \$ -	 \$ 26,777	 \$ 26,777

LAUREL COUNTY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-MODIFIED CASH BASIS
BUDGET AND ACTUAL
ECONOMIC DEVELOPMENT FUND
For The Year Ended June 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Miscellaneous	\$ 33,000	\$ 33,000	\$ 21,292	\$ (11,708)
Interest	<u>500</u>	<u>500</u>	<u>14,219</u>	<u>13,719</u>
Total Revenues	<u>33,500</u>	<u>33,500</u>	<u>35,511</u>	<u>2,011</u>
EXPENDITURES				
General Government	<u>102,500</u>	<u>102,500</u>	<u>-</u>	<u>102,500</u>
Total Expenditures	<u>102,500</u>	<u>102,500</u>	<u>-</u>	<u>102,500</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(69,000)</u>	<u>(69,000)</u>	<u>35,511</u>	<u>104,511</u>
OTHER FINANCING SOURCES (USES)				
Transfers Out to Other Funds	<u>(1,000)</u>	<u>(1,000)</u>	<u>-</u>	<u>1,000</u>
Total Other Financing Sources and Uses	<u>(1,000)</u>	<u>(1,000)</u>	<u>-</u>	<u>1,000</u>
Net Changes in Fund Balances	(70,000)	(70,000)	35,511	105,511
Fund Balances - Beginning	<u>70,000</u>	<u>70,000</u>	<u>91,592</u>	<u>21,592</u>
Fund Balances - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 127,103</u>	<u>\$ 127,103</u>

LAUREL COUNTY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-MODIFIED CASH BASIS
BUDGET AND ACTUAL
CSEPP FUND
For The Year Ended June 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental Revenue	\$ 117,355	\$ 3,175,638	\$ 3,000,376	\$ (175,262)
Miscellaneous	<u>-</u>	<u>19,750</u>	<u>26,846</u>	<u>7,096</u>
Total Revenues	<u>117,355</u>	<u>3,195,388</u>	<u>3,027,222</u>	<u>(168,166)</u>
EXPENDITURES				
General Government	-	116	116	-
Protection to Persons and Property	108,655	2,883,348	2,186,546	696,802
Capital Projects	-	302,489	302,489	-
Fringe Benefits	<u>8,700</u>	<u>8,700</u>	<u>8,645</u>	<u>55</u>
Total Expenditures	<u>117,355</u>	<u>3,194,653</u>	<u>2,497,796</u>	<u>696,857</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>-</u>	<u>735</u>	<u>529,426</u>	<u>528,691</u>
Net Changes in Fund Balances	-	735	529,426	528,691
Fund Balances - Beginning	<u>-</u>	<u>265</u>	<u>265</u>	<u>-</u>
Fund Balances - Ending	<u>\$ -</u>	<u>\$ 1,000</u>	<u>\$ 529,691</u>	<u>\$ 528,691</u>

LAUREL COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2007

Note 1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. A formal budget is not adopted for the Laurel County Section 8 Housing.

The State Local Finance Officer does not require the Laurel County Section 8 Housing to be budgeted because the fiscal court does not approve the expenses made from these funds.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

LAUREL COUNTY
COMBINING BALANCE SHEET-NON-MAJOR GOVERNMENTAL FUNDS -
MODIFIED CASH BASIS
June 30, 2007

	<u>Special Revenue Funds</u>				
	Forest Fire Fund	LGED Fund	Camp Wildcat Fund	Courthouse Annex Fund	Total Non-Major Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 1,065	\$ 127	\$ 12,589	\$ 196	\$ 13,977
Total Assets	<u>\$ 1,065</u>	<u>\$ 127</u>	<u>\$ 12,589</u>	<u>\$ 196</u>	<u>\$ 13,977</u>
FUND BALANCES					
Unreserved Special Revenue Fund	\$ 1,065	\$ 127	\$ 12,589	\$ 196	\$ 13,977
Total Fund Balances	<u>\$ 1,065</u>	<u>\$ 127</u>	<u>\$ 12,589</u>	<u>\$ 196</u>	<u>\$ 13,977</u>

See Notes to Financial Statements

LAUREL COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS -
MODIFIED CASH BASIS
For The Year Ended June 30, 2007

	Special Revenue Funds				
	Forest Fire Fund	LGED Fund	Camp Wildcat Fund	Courthouse Annex Fund	Total Non-Major Governmental Funds
REVENUES					
Taxes	\$ 1,484	\$ -	\$ -	\$ -	\$ 1,484
Intergovernmental	-	189,000	-	-	189,000
Miscellaneous	33	70	-	-	103
Rent	-	-	-	94,000	94,000
Interest	30	302	408	1,610	2,350
Total Revenues	<u>1,547</u>	<u>189,372</u>	<u>408</u>	<u>95,610</u>	<u>286,937</u>
EXPENDITURES					
General Government	-	31	-	-	31
Protection to Persons and Property	2,232	144,000	-	-	146,232
General Health and Sanitation	-	15,000	-	-	15,000
Capital Projects	-	75,544	27,742	-	103,286
Fringe Benefits	-	90	-	-	90
Total Expenditures	<u>2,232</u>	<u>234,665</u>	<u>27,742</u>	<u>-</u>	<u>264,639</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(685)</u>	<u>(45,293)</u>	<u>(27,334)</u>	<u>95,610</u>	<u>22,298</u>
Other Financing Sources (Uses)					
Transfers to Other Funds	-	-	-	(95,414)	(95,414)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(95,414)</u>	<u>(95,414)</u>
Net Change in Fund Balances	(685)	(45,293)	(27,334)	196	(73,116)
Fund Balances - Beginning	<u>1,750</u>	<u>45,420</u>	<u>39,923</u>	<u>-</u>	<u>87,093</u>
Fund Balances - Ending	<u>\$ 1,065</u>	<u>\$ 127</u>	<u>\$ 12,589</u>	<u>\$ 196</u>	<u>\$ 13,977</u>

See Notes to Financial Statements

LAUREL COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2007

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass- Through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. DEPARTMENT OF COMMERCE</u>			
Passed Through Eastern Kentucky Pride: Congressionally Identified Awards and Projects:			
Pride	11.469	N/A	\$ 66,004
Total U.S. Department of Commerce			<u>66,004</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Direct Program:			
Section 8 Housing Choice Vouchers	14.871	N/A	<u>1,151,659</u>
Total U.S. Department of Housing and Urban Development			<u>1,151,659</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Passed Through State Justice Cabinet:			
U.S. Office of National Drug Control Policy:			
High Intensity Drug Trafficking Area	16.N/A	N/A	<u>5,615,418</u>
Total U.S. Department of Justice			<u>5,615,418</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Passed Through State Transportation Cabinet:			
Interstate Frontage Road Project	20.N/A	N/A	<u>4,680</u>
Total U.S. Department of Transportation			<u>4,680</u>
<u>U.S. ARMY CORP OF ENGINEERS</u>			
Direct Program:			
Southern and Eastern Kentucky Environmental Improvement Program			
Northland Sewer Project	99.N/A	N/A	<u>8,959</u>
Total U.S. Army Corp of Engineers			<u>8,959</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Passed Through KY State Department of Military Affairs:			
Homeland Security Grant Program	97.004		78,000
Chemical Stockpile Emergency Preparedness Program	97.040		2,497,795
Emergency Management Performance Grants- Coordinator Salary	97.042		<u>13,664</u>
Total U.S. Department of Homeland Security			<u>2,589,459</u>
Total Expenditures of Federal Awards			<u>\$ 9,436,179</u>

See Notes to Schedule of Expenditures of Federal Awards

LAUREL COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2007

Note 1.

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Laurel County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Note 2.

Of the federal expenditures presented in the accompanying Schedule of Expenditures of Federal Awards, Laurel County Fiscal Court provided federal awards to the following subrecipient:

<u>Subrecipient</u>	<u>Pass-Through Grant Amount</u>
The Financial Commission for the Appalachian High Intensity Drug Trafficking Area	<u>\$5,615,418</u>

LAUREL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2007

Section I-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued - unqualified

Internal control over financial reporting:

- Material weakness(es) identified _____yes ___X___no
- Significant Deficiency(ies) identified
that are not considered to be material
weakness(es)? ___X___yes _____no

Noncompliance material to financial
statements noted?

___X___yes _____no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ___X___yes _____no
- Significant Deficiency(ies) identified
that are not considered to be material
weakness(es)? ___X___yes _____no

Type of auditor's report issued on compliance for major programs - qualified

Any audit findings disclosed that are
required to be reported in accordance
with Section 510(a) of Circular A-133?

___X___yes _____no

Identification of major programs:

CFDA Number(s)

14.871
16.N/A
97.040

Name of Federal Program or Cluster

Section 8 Housing Choice Vouchers
High Intensity Drug Trafficking Area
Chemical Stockpile Emergency Preparedness Program

Dollar threshold used to distinguish
between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

_____yes ___X___no

Section II - Financial Statement of Findings

Finding 2007-1

Segregation of Duties

- a. Statement of Condition-The Laurel County Fiscal Court does not have proper segregation of duties.
- b. Criteria-A good internal control system requires proper segregation of duties to ensure effectiveness.
- c. Cause of Condition-The size of the Fiscal Court's office staff does not allow proper segregation of duties.
- d. Recommendation-The Court should spread the job duties of the Treasurer to other staff in the office.
- e. Management's Response-The Fiscal Court has implemented some review processes and is continuing to consider the cost benefit of this finding. Judge Kuhl has spoken to two individuals to consider part time work in this area.

Finding 2007-2

The Fiscal Court Should Pay Employees for Time Worked

- a. Statement of Condition-The Laurel County Fiscal Court should pay employees for actual time worked.
- b. Criteria-A good internal control system requires adherence to the personnel policy with regards to paying employees for actual time worked.
- c. Cause of Condition- During our audit we noted that jail personnel who were called to come in on their off day received four hours of pay without regard for the actual time worked. In some cases it appeared that employees were coming in to do administrative type work such as answer phone messages and e-mails. No documentation was present to determine if the employees were called to come in to work or came in on their own accord. The jail's personnel policy does not address being called in to work on off days. The County's personnel policy states that employees will only be paid for time actually worked.
- d. Recommendation- We recommend that the jail's personnel policy be reviewed to address this situation and forwarded to the Fiscal Court for approval. We further recommend that only those personnel who are actually called in to work on days off be paid additional pay. A record of call ins should be maintained to cross-reference to the employee time cards.
- e. Management's Response-We will absolutely address this situation. We will take the necessary steps to remedy this.

Finding 2007-3

Related Party Transaction

- a. Statement of Condition-The Laurel County Fiscal Court should not engage in related party transactions. This finding is directly related to Finding 2007-4. The Laurel County CSEPP Director (the Director) awarded a federal grant to a related business party. Also, the director completed a related party transaction disclosure and did not reveal this relationship or transaction.
- b. Criteria-A good internal control system requires all transactions to be at "arms length" in fact and appearance.
- c. Cause of Condition-As described in finding 2007-4, The Laurel County Fiscal Court was selected to administer a federal CSEPP grant passed from the Department of Homeland Security. The contract was awarded by the Director of Laurel County Emergency Operations (the Director) to PREP, which is owned by an individual that is a business partner of the Director and subsequently married the Director. In May 2008, a purchase request was forwarded from the Director to the Laurel County Fiscal Court for the purchase of replacement parts and maintenance of the equipment mentioned in Finding 2007-4 in the amount of \$9,996.15. This purchase requisition was pending at the time the Director became married to the owner of PREP.
- d. Recommendation-These transactions should be referred to the Laurel County Ethics Board.
- e. Management's Response-The Fiscal Court will refer this matter to the Laurel County Ethics Board.

Section II - Financial Statement of Findings - Continued

Finding 2007-4

Bid Procedures, Award and Procurement

- a. **Statement of Condition**-The Laurel County Fiscal Court did not properly oversee the bid process, bid award and procurement process, related to federal grant CFDA # 97.040, Department of Homeland Security. As a result, improprieties occurred as identified below.
- b. **Criteria**-In accordance with OMB Circular A-133, the Laurel County Fiscal Court is required to follow procurement procedures as outlined by the Model Procurement Code with regard to receipts/expenditures of federal awards. KRS 424.260 and the County's administrative code state that bids for materials, supplies or equipment must be obtained for expenditures that exceed \$20,000. Furthermore, the County's administrative code sets out the procedures for the selection of vendors and guidance for related party transactions.
- c. **Cause of Condition**-The Laurel County CSEPP Director (the Director) received and opened bids related to the above mentioned grant in his office with no one else present. Two bids were received. One of the bids was from a company named Providing Response and Emergency Preparedness, LLC (PREP). PREP is owned by an individual that is also a business partner in another company co-owned with the Director. The owner of PREP and the Director subsequently became married to each other. The contract was awarded to PREP, which was the low bidder. The Laurel County Fiscal Court was not made aware of the relationship between the Director and the owner of PREP. The fact that this was a related party transaction was not revealed. PREP could not provide many of the items on the bid specification sheet due to territorial rights between the suppliers and the other bidder. As a result, many of the items were purchased from the second bidder. Some of the items provided by PREP did not meet the specifications indicated on the bid sheet. For example, the bid specifications called for forty 8,000-watt generators; however, PREP supplied forty 3,000-watt generators. Also, the bid included forty trailers with certain specifications related to size, construction and features. PREP provided forty trailers that were inferior in quality and specifications. As a result of replacing these items with smaller and inferior equipment, CSEPP overpaid PREP for these items. In total, the cost of the equipment was greater than the amount that would have been paid to second bidder. Due to the improper handling of this award and lack of oversight, we are questioning the entire cost related to the above mentioned federal award amounting to \$1,874,614.57.
- d. **Recommendation**-All bids should be opened in the proper forum and approved by Laurel County Fiscal Court. The Fiscal Court should always accept the best bid and unqualified bidders should not be considered. Related party transactions should be disclosed. This matter should be referred to the Laurel County Ethics Committee. Also, the Kentucky Auditor of Public Accounts is reviewing this matter and will issue their response at a latter date.
- e. **Management's Response**-The Fiscal Court has addressed this matter and has implemented controls that will strengthen the procurement process in the future.

Section II - Financial Statement of Findings - Continued

Finding 2007-5

Construction of Emergency Operations Building

- a. Statement of Condition-The Laurel County Fiscal Court did not properly follow bid procedures and did not oversee the purchasing process related to construction of the Emergency Operations Building.
- b. Criteria-The Laurel County Fiscal Court should request cost estimates and prepare a budget for construction projects. Also, state bid laws require that purchases in excess of \$20,000 to a single vendor be awarded through the bid process.
- c. Cause of Condition-The Laurel County Fiscal Court did not receive bids for the construction of the Emergency Operations Building. The Director of Laurel County Emergency Operations was in charge of oversight of construction of the Emergency Operations Building. He was responsible for purchasing materials and recording the purchase orders. However, this information was not relayed to the Laurel County Fiscal Court. As a result the Laurel County Fiscal Court incurred cost overruns related to the construction of the Emergency Operations building in the amount of \$220,500. Also, one vendor involved in the construction process was paid in excess of \$20,000 for work performed.
- d. Recommendation-The Laurel County Fiscal Court should control all expenditures including construction projects. Estimates should be obtained and a budget established for all projects. The Laurel County Fiscal Court should request bids for expenditures in excess of \$20,000.
- e. Management's Response-The Fiscal Court has addressed this matter. In the future the Fiscal Court will monitor projects such as these.

Section III - Federal Awards Findings and Questioned Costs

Finding 2007-1

Segregation of Duties

Please see Section II for a description of this finding.

DEPARTMENT OF HOMELAND SECURITY
CFDA #97.040

Finding 2007-3

Related Party Transaction

Please see Section II for a description of this finding.

Finding 2007-4

Bid Procedures, Award and Procurement

Please see Section II for a description of this finding.

Finding 2007-5

Construction of Emergency Operations Building

Please see Section II for a description of this finding.

**LAUREL COUNTY
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For The Year Ended June 30, 2007**

Status of Prior Year Findings

Finding 2006-1 - The county does not have proper segregation of duties is a repeat finding of the prior year. Please see finding 2007-1.

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Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards

The Honorable Lawrence Kuhl, Laurel County Judge/Executive
Members of the Laurel County Fiscal Court

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of Laurel County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements and have issued our report thereon dated February 10, 2009. The County presents its financial statements on the modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. The financial statements of the Laurel County Section 8 Housing, a component unit, were audited by other auditors and whose report has been furnished to us. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Laurel County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Laurel County Fiscal Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Laurel County Fiscal Court's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect Laurel County Fiscal Court's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of Laurel County Fiscal Court's financial statements that is more than inconsequential will not be prevented or detected by Laurel County Fiscal Court's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2007-01 and 2007-02 to be significant deficiencies in internal control over financial reporting.



The Honorable Lawrence Kuhl, Laurel County Judge/Executive
Members of the Laurel County Fiscal Court
(Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Laurel County Fiscal Court's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe the significant deficiencies described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Laurel County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2007-03, 2007-04 and 2007-05.

Laurel County Fiscal Court's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Laurel County Fiscal Court's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Laurel County Fiscal Court, the Kentucky Department for Local Government, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Christian, Sturgeon & Associates, PSC

February 10, 2009

CHRISTIAN, STURGEON & ASSOCIATES, PSC

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Report On Compliance With Requirements Applicable To Each Major Program And on Internal Control Over Compliance In Accordance With OMB Circular A-133

The Honorable Lawrence Kuhl, Laurel County Judge/Executive
Members of the Laurel County Fiscal Court

Compliance

We have audited the compliance of Laurel County, Kentucky with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. Laurel County, Kentucky's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Laurel County, Kentucky's management. Our responsibility is to express an opinion on Laurel County, Kentucky's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Laurel County, Kentucky's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Laurel County, Kentucky's compliance with those requirements.

As described in findings 2007-03 and 2007-04 in the accompanying Schedule of Findings and Questioned Costs, Laurel County, Kentucky did not comply with requirements regarding Procurement, Suspension and Debarment that are applicable to its Chemical Stockpile Emergency Preparedness Program. Compliance with such requirements is necessary, in our opinion, for Laurel County, Kentucky to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Laurel County, Kentucky complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2007-05.



The Honorable Lawrence Kuhl, Laurel County Judge/Executive
Members of the Laurel County Fiscal Court
(Continued)

Internal Control Over Compliance

The management of Laurel County, Kentucky is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Laurel County, Kentucky's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of Laurel County's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Laurel County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2007-01 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items 2007-03 and 2007-04 to be material weaknesses.

Laurel County Fiscal Court's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Laurel County Fiscal Court's response and, accordingly, we express no opinion on it.

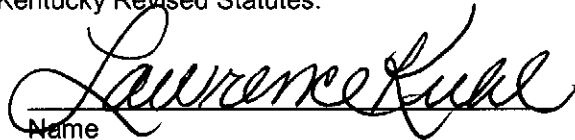
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Christian, Sturgeon & Associates, PSC

February 10, 2009

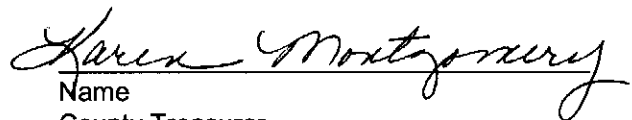
**LAUREL COUNTY
CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS
For The Year Ended June 30, 2007**

The Laurel County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program and Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name

County Judge/Executive



Name

County Treasurer